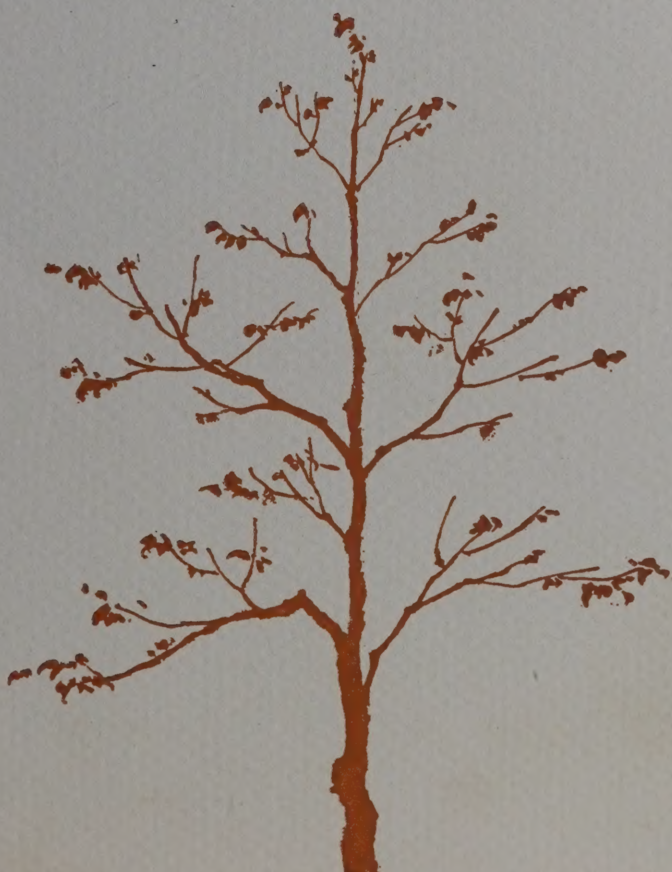
Arbor Capital Resources Inc.

annual report 1978



Directors' report to shareholders

FINANCIAL SUMMARY

EARNINGS

Net earnings before extraordinary items for 1978 were $469,419 or some 4% above the corresponding value for the preceding year. This result was consistent with the forecast of a modest increase which was given in our report to shareholders last year.

During the year Arbor completed a corporate re-organization. As a result, 977,500 of its issued common shares have been cancelled. Calculated according to the weighted average number of shares outstanding, net earnings per share before extraordinary items were 23 cents in 1978 and 16 cents in 1977.

Confirmation was received during the year that certain losses incurred by our predecessor company, Anglo-Rouyn Mines Limited, were deductible for income tax purposes. The effect of claiming these losses is reflected in the extraordinary item of $1,351,000.

FINANCIAL POSITION

A note to the financial statements shows that the garden crypt program accounts for most of the noticeable increase in inventories for 1978. Our first garden crypts were constructed at Glendale Memorial Gardens in Toronto in 1976. In response to strong consumer demand, crypts have been erected at twelve other properties from Montreal to Vancouver.

The directors' report for 1975 noted that we had commenced storing some products sold under pre-need contracts rather than funding for their delivery in the future. This program has now grown to the point at which products aggregating more than $750,000 have been delivered into storage. The cost of these products is now for the first time included under "Pre-need funds and merchandise" on the balance sheet.

LEADING EVENTS

LAND

A basic goal of Arbor is to maintain lands sufficient for the anticipated demands of the next fifty years in all major Canadian centres. Worthwhile progress toward this objective was made in 1978.

The company's property at Burlington, Ontario, was put into operation under the name of Halton Hills Memorial Gardens. Shortly after the end of the fiscal year we acquired the Colwood Cemetery Company in Victoria, British Columbia. These two additions bring to 36 the total number of cemeteries now operated by your company.

Our objectives call for the early acquisition of two more properties in each of Ontario and Alberta and one in the Maritimes. Negotiations to acquire these lands are being conducted actively and management thinks it not unrealistic to expect that at least two more properties can be acquired during 1979. We are not immune from the procedural delays which characterize land assembly operations in Canada, but

Directors' interim report to Shareholders

Accompanying this report are unaudited, consolidated statements of earnings and of changes in financial position for Arbor Capital Resources Inc. for the six months ended April 30, 1978, together with comparative information for the same period in 1977.

For the first six months of 1978, net income before extraordinary items was $245,093 compared with $286,049 for the same period in 1977. While operating profit rose by approximately 8%, gains on the disposal of investments did not match the substantial level achieved in the earlier period. There were no extraordinary items in the first six months of 1978.

The audited financial statements of Arbor for 1977 reported earnings per share after giving effect to a reduction of 1,038,600 in the number of outstanding common shares. During the first six months of the current fiscal year, Arbor purchased 14,500 of its shares. Accordingly, the values for earnings per share shown in the accompanying statements were calculated on the basis of 2,033,797 shares outstanding in 1978 and 3,086,897 shares outstanding in 1977.

Arbor's performance so far this year has been substantially in accordance with management's expectations. The activities of the Landscaping Division have been reduced sharply and will be terminated within the next few weeks. Sales in the Memorial Gardens Division increased by approximately 15%. Garden crypts are now making an important contribution to sales at the seven cemeteries where these units have been introduced and our plans call for the provision of garden crypts at seven more properties by the end of this calendar year.

The new crematorium at Rideau Memorial Gardens in Montreal commenced to operate last month. Consistent with a rapid increase in demand for cremation, we intend to establish ten more crematoria within the next three years.

Management anticipates that your company's performance will continue at about the current level for the balance of this year.

On behalf of the Board of Directors,

P. L. W'

Toronto, Ontario

Arbor Capital Resources Inc.

Directors' interim report
to Shareholders

for the six months ended April 30, 1978

Cemetery

ARBOR CAPITAL RESOURCES INC.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(Unaudited)

	Six months ended April 30 1978	1977
SOURCE OF CASH		
Net earnings for the period before extraordinary items	$ 245,093	$ 286,049
Items not affecting funds		
Depreciation and amortization	174,981	204,860
Increase in provision for future delivery	693,785	906,605
Provided from operations	1,113,859	1,397,514
Increase in deferred revenue	102,499	84,141
Increase in accounts payable	238,176	320,865
Proceeds on disposal of net assets of subsidiary	—	676,215
Gain on repurchase of notes payable	—	19,000
Decrease in inventories	170,331	—
Increase in long-term debt	233,516	—
Other	74,639	60,981
	1,933,020	2,558,716
USE OF CASH		
Increase in inventories	—	269,775
Increase in instalment accounts receivable	660,142	590,138
Development costs and additions to cemetery land	640,247	109,687
Purchase of fixed assets and leasehold interests	267,264	203,716
Increase in funds set aside	306,045	296,124
Decrease in bank indebtedness	22,902	129,470
Decrease in long-term debt	—	94,680
Long-term investment	—	133,858
Other	26,400	28,483
	1,923,000	1,855,931
INCREASE IN CASH	10,020	702,785
CASH—BEGINNING OF PERIOD	4,714	59,133
CASH—END OF PERIOD	$ 14,734	$ 761,918

ARBOR CAPITAL RESOURCES INC.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(Unaudited)

	Six months ended April 30 1978	1977
SALES	$ 5,691,538	$ 5,545,881
INVESTMENT INCOME		
Funds set aside	415,526	402,708
Perpetual care funds	415,217	385,435
	6,522,281	6,334,024
OPERATING COSTS AND OTHER EXPENSES	6,063,799	5,910,614
	458,482	423,410
GAIN ON INVESTMENTS	6,611	127,639
	465,093	551,049
PROVISION FOR INCOME TAXES	220,000	265,000
NET INCOME FOR THE PERIOD BEFORE EXTRAORDINARY ITEMS	245,093	286,049
EXTRAORDINARY ITEM		
Gain on repurchase of notes payable	—	19,000
NET EARNINGS FOR THE PERIOD	$ 245,093	$ 305,049
EARNINGS PER SHARE (note)		
Net earnings before extraordinary item	$ 0.12	$ 0.09
Net earnings	$ 0.12	$ 0.10

Note to financial statements

Based on 2,033,797 shares outstanding in 1978 and 3,086,897 in 1977.

we are experiencing growing support for our proposals as regulatory authorities become familiar with the role we perform in the community.

CREMATORIA

Reflecting a growing preference for cremation, plans have been made to establish crematoria at some twelve properties by 1980. At the time of writing, one crematorium at Rideau Memorial Gardens in Montreal is operating satisfactorily and five more, at Hamilton, Ottawa, Kingston, St. Catharines and Regina, are expected to be put into service in the next few months.

OFFICERS

Mr. Bernard E. Francisco, R.I.A., was elected Vice-President Finance in February, 1979. Mr. Francisco has held senior control and treasury responsibilities since he joined the company in 1973 and your directors extend to him every good wish.

OUTLOOK

Based on current operating results management looks for a modest increase in earnings in 1979. This would represent continued progress toward achieving an adequate return on the resources which have been committed to your company. By any accepted measure, Arbor's return on investment is nominal. Contributing to this position are many factors among the more important of which is the effect of the capital expansion program which was initiated two years ago and which should be maintained, if at a somewhat reduced rate, for some two more years. Given the scale of this program and the tendency for slow return inherent in most of our capital projects, no marked improvement can be expected in the short term. However, your directors are satisfied that the steps being taken now are essential to enhance Arbor's prospects in the medium and the long terms.

ACKNOWLEDGEMENTS

During the year, we entered into 12,565 contracts – most of which were with new customers. Your directors appreciate the confidence which these families have placed in our organization. We are grateful also to many suppliers and to the professional advisors and people in the public sector who assisted us in coping with the growing complexities of business life in Canada. Finally, your directors record their sincere thanks to all our personnel who contributed to Arbor's progress in 1978.

On behalf of the Board of Directors

P. L. Wilson

Philip L. Wilson
President

Toronto, Ontario
February 14, 1979

Consolidated statement of earnings

	Year ended October 31 1978	1977
SALES	$12,502,703	$11,599,938
INVESTMENT INCOME		
Pre-need funds	917,248	853,199
Perpetual care funds	925,584	777,372
	14,345,535	13,230,509
OPERATING COSTS AND OTHER EXPENSES	13,492,254	12,403,714
	853,281	826,795
NET GAIN ON INVESTMENTS (note 3)	64,638	28,531
	917,919	855,326
PROVISION FOR INCOME TAXES		
Current	7,500	60,000
Deferred	441,000	348,000
	448,500	408,000
NET EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	469,419	447,326
EXTRAORDINARY ITEMS		
Reduction of deferred income taxes on application of prior years' losses (note 7)	1,351,000	155,812
Gain on repurchase of notes payable	—	19,409
	1,351,000	175,221
NET EARNINGS FOR THE YEAR	$ 1,820,419	$ 622,547
EARNINGS PER SHARE (note 6)		
Net earnings before extraordinary items	$ 0.23	$ 0.16
Net earnings	$ 0.89	$ 0.22

Consolidated statement of changes in financial position

	Year ended October 31 1978	1977
SOURCE OF CASH		
Net earnings for the year before extraordinary items	$ 469,419	$ 447,326
Items not affecting funds		
Depreciation and amortization (note 1)	280,734	266,161
Increase in provision for future delivery (note 1)	1,932,200	1,603,926
Deferred income taxes	441,000	503,812
Cost of lots sold (note 1)	146,906	162,773
Provided from operations	3,270,259	2,983,998
Increase in perpetual care and pre-need funds	142,934	—
Increase in bank indebtedness	506,889	200,689
Increase in deferred revenue	248,710	169,290
Increase in long-term debt (note 5)	278,069	670,080
Gain on repurchase of note payable	—	19,409
Proceeds on disposal of fixed assets	34,004	16,751
Proceeds on disposal of net assets of operating division	—	676,215
Other	29,168	—
	4,510,033	4,736,432
USE OF CASH		
Increase in instalment accounts receivable	1,612,155	1,231,690
Development costs and additions to cemetery land (note 1)	795,222	1,532,640
Purchase of fixed assets	636,119	407,908
Increase in pre-need funds and merchandise (note 3)	1,415,742	504,001
Decrease in perpetual care and pre-need funds	—	55,787
Purchase of shares (note 6)	11,928	832,886
Other	—	225,939
	4,471,166	4,790,851
INCREASE (DECREASE) IN CASH	38,867	(54,419)
CASH — BEGINNING OF YEAR	4,714	59,133
CASH — END OF YEAR	$ 43,581	$ 4,714

ARBOR CAPITAL RESOURCES INC.

Consolidated balance sheet

	As at October 31 1978	1977
ASSETS		
Cash	$ 43,581	$ 4,714
Accounts receivable (note 2)	576,427	625,189
Inventory (note 1)	2,221,717	479,503
Prepaid and deferred expenses	129,440	65,966
Instalment accounts receivable (note 2)	11,822,960	10,210,805
Pre-need funds and merchandise (note 3)	12,009,960	10,594,218
Cemetery land (note 1)	5,226,825	4,578,509
Fixed assets – at cost, less accumulated depreciation of $2,116,876 (1977 – $1,813,195) (note 1)	1,462,698	1,141,318
	$33,493,608	$27,700,222

PERPETUAL C

Investments held by trustees – at cost	$11,046,651	$10,039,858

Signed on behalf of the Board

David Scanlon

Director

P. L. Wilson

Director

	As at October 31	
	1978	1977
LIABILITIES		
Bank indebtedness (note 2)	$ 892,389	$ 385,500
Accounts payable and accrued liabilities	2,807,237	1,021,354
Pre-need funds	223,811	336,598
Perpetual care funds	1,029,096	773,375
Provision for future delivery (note 1)	16,893,005	14,960,805
Deferred revenue	1,469,916	1,221,206
Long-term debt (note 5)	1,751,115	1,473,046
Deferred income taxes (note 7)	2,911,235	3,821,235
	27,977,804	23,993,119
SHAREHOLDERS' EQUITY (note 6)		
Share capital		
Authorized: 9,945,500 shares without par value		
Issued and fully paid: 2,109,397 (1977 – 3,086,897) shares without par value	708,784	1,075,474
Retained earnings	4,807,020	3,464,515
	5,515,804	4,539,989
Reduction in shareholders' equity (note 6)	—	(832,886)
	5,515,804	3,707,103
	$33,493,608	$27,700,222

UNDS (note 4)

Perpetual care fund balances	$11,046,651	$10,039,858

Consolidated statement of retained earnings

	Year ended October 31 1978	1977
RETAINED EARNINGS – BEGINNING OF YEAR	$ 3,464,515	$ 2,841,968
Excess of the cost of the shares cancelled over their stated value (note 6)	(477,914)	—
Net earnings for the year	1,820,419	622,547
RETAINED EARNINGS – END OF YEAR	$ 4,807,020	$ 3,464,515

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Arbor Capital Resources Inc. as at October 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1978 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Toronto, Ontario
February 5, 1979

Chartered Accountants

Notes to consolidated financial statements

FOR THE YEAR ENDED OCTOBER 31, 1978

1. ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The accounts of the company and of all of its subsidiaries have been included in the consolidated financial statements.

(b) INSTALMENT ACCOUNTS RECEIVABLE

The company follows the practice of recording the profits on instalment contracts at the time of sale. Instalment accounts receivable are payable over periods of time which average approximately five years. Provision is made for doubtful accounts.

(c) CEMETERY LAND

The company charges to cemetery land the cost of raw land and development. As lots are sold, the cost of the developed lots is charged to operations. In 1978 this cost amounts to $146,906 (1977 – $162,773).

(d) INVENTORY

Inventory is valued at the lower of cost and net realizable value and is classified as follows:

	1978	1977
Crypts	$1,930,938	$ 201,780
Other	290,779	277,723
	$2,221,717	$ 479,503

(e) DEPRECIATION AND AMORTIZATION

Depreciation of fixed assets and amortization of leasehold improvements are provided for in the accounts using the declining balance method at rates of 5% and 10% for buildings, 20% for furniture and equipment and 30% for automotive equipment.

Depreciation and amortization included in operating costs and other expenses amount to $280,734 (1977 – $266,161).

(f) PROVISION FOR FUTURE DELIVERY

The provision for future delivery consists of the following:

	1978	1977
(i) Merchandise and services sold on a pre-need basis: Under such contracts, the average period from the balance sheet date to time of delivery is approximately seventeen years. The provision for future delivery is based on a calculation made by a firm of consulting actuaries and represents the cost of the merchandise and services, allowing for price increases to the estimated time of delivery, discounted at an appropriate interest rate.	$14,087,011	$13,151,110
(ii) Merchandise sold on a storage basis: Under such contracts the company acquires the merchandise, on average, three years from the balance sheet date and stores such merchandise until the time of need. The provision for future delivery includes:		
(a) merchandise to be acquired and stored in the future	2,054,074	1,809,695
(b) merchandise which has been acquired and will be stored until delivery	751,920	—
	$16,893,005	$14,960,805

(g) DEFERRED REVENUE

Service charges are applied on the uncollected balances of contracts for the sale of lots and merchandise and are payable over periods averaging approximately five years. The company follows the practice of recognizing service charge revenue over the life of the sales contract by the sum-of-the-digits method.

2. BANK INDEBTEDNESS

Accounts receivable and instalment accounts receivable have been pledged as security for the bank indebtedness.

Notes

3. PRE-NEED FUNDS AND MERCHANDISE

The company has acquired merchandise and set aside funds to meet statutory and contractual obligations as follows:

	1978	1977
Cash and short-term deposits	$ 762,196	$ 742,895
Bonds (quoted market value $7,861,468; 1977 – $6,908,619)	7,930,726	6,867,787
Stocks (quoted market value $211,114; 1977 – $361,684)	327,614	559,942
Mortgages	2,344,504	2,589,594
Merchandise in storage	751,920	—
Total funds and merchandise set aside – at cost	12,116,960	10,760,218
Provision for losses on funds	(107,000)	(166,000)
Total pre-need funds and merchandise	$12,009,960	$10,594,218

The investments included in the funds are valued at cost, less a provision for losses in respect of individual investments where a decline in market value below cost has occurred and appears to be permanent. The net gain resulting from profits and losses on sales of investments and from the change in the provision for losses for the year ended October 31, 1978 was $64,638 (1977 – $28,531).

Pre-need funds become available when the merchandise and services have been provided.

4. PERPETUAL CARE FUNDS

The company has the right to the income from these funds for the care and maintenance of cemetery properties but the assets of the funds are not assets of the company.

5. LONG-TERM DEBT

	1978	1977
10½% mortgage payable in quarterly instalments of $1,000 to April 28, 1982 and the balance of $353,125 on July 28, 1982	$ 367,125	$ 371,125
11¼% mortgage payable in monthly instalments (principal and interest) of $1,960 from November 1, 1978 to October 1, 1983	200,000	—
11¼% mortgage payable in monthly instalments (principal and interest) of $4,752 to August 18, 1983 and $461,040 on September 18, 1983	484,692	—
10% mortgage payable in semi-annual instalments of $43,618 from December 1, 1982 to June 1, 1987 and $27,500 on December 1, 1987	463,678	—
Other long-term debt	235,620	1,101,921
	$ 1,751,115	$ 1,473,046
Amount payable within one year	$ 97,024	$ 610,800
Interest on long-term debt included in operating costs and other expenses	$ 187,437	$ 89,618

6. SHAREHOLDERS' EQUITY

(a) During the years ended October 31, 1978 and 1977 shareholders' equity was reduced as follows:

	1978	1977
(i) Purchase by the company of its shares on the open market:		
40,000 shares in 1977	$ 32,696	$ 32,696
14,500 shares in 1978	11,928	—
The above shares were cancelled subsequent to October 31, 1978.		
(ii) Purchase of 998,600 shares of the company in 1977 by a corporation owned 47.5% by a subsidiary of the company. During 1978, the corporation was amalgamated with the company resulting in the cancellation of the 998,600 shares and the issuance of 75,600 shares of the company, on a one-for-one basis, with a stated value of $210 to the remaining shareholders of the corporation.	799,980	800,190
	844,604	832,886
Less: Excess of cost of shares cancelled over their stated value charged to retained earnings in 1978	477,914	—
Reduction of share capital in 1978 and shareholders' equity in 1977.	$ 366,690	$ 832,886

Notes

(b) Options have been granted to certain officers to purchase 140,000 shares at $1 per share. These options are exercisable at various dates and expire on December 31, 1979.

(c) Earnings per share have been calculated using the weighted average number of shares outstanding during the year after giving effect to the reduction in shares referred to in note 6(a). The issue of shares pursuant to the above stock options would have a dilutive effect which would not be material to the earnings per share.

7. ADJUSTMENT OF INCOME TAXES ARISING FROM A CORPORATE REORGANIZATION

In prior years one of the companies in the group incurred losses, the deductibility of which in computing taxable income was uncertain. For this reason, the tax effect of these losses was not previously recorded in the accounts.

During the year, the deductibility of these losses was confirmed and the company utilized these losses by not claiming income tax reserves on undelivered merchandise and instalment accounts receivable. The resulting reduction in deferred taxes has been recorded in the statement of earnings as an extraordinary item "Reduction of deferred income taxes on application of prior years' losses" in the amount of $1,351,000.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiaries to its directors and senior officers as defined by The Ontario Business Corporations Act was $349,967 for the year ended October 31, 1978 (1977 – $332,650).

9. COMPARATIVE FIGURES

Certain of the 1977 comparative figures have been reclassified to conform with the 1978 presentation.

DIRECTORS

D. G. C. Menzel, Q.C.*; *Partner of Campbell, Godfrey & Lewtas*
John W. Sabine; *Partner of Campbell, Godfrey & Lewtas*
Daniel J. Scanlan; *Chairman of Arbor Capital Resources Inc.*
The Right Honourable Lord Shaughnessy*; *Vice-President and Secretary of Canada Northwest Land Limited and a Trustee of The Last Post Fund Inc.*
Jean Sirois; *Partner of Rivard, Hickson, Sirois & Lemieux*
Philip L. Wilson*; *President and Chief Executive Officer of Arbor Capital Resources Inc.*
*Member, Audit Committee

OFFICERS AND SENIOR MANAGEMENT

Daniel J. Scanlan, *Chairman*
Philip L. Wilson, *President*
Bernard E. Francisco, *Vice-President Finance*
John W. Sabine, *Secretary*
Donald R. Belyea, *Director of Lands Management*
W. Keith Forbes, *Manager of Purchasing*
Joseph E. Johnson, *Director of Operations*
Patrick Monkman, *Manager of Properties*
John V. Palmer, *Director of Marketing*

HEAD OFFICE

37 Front Street East, Toronto, Ontario M5E 1N6